

MEMORANDUM

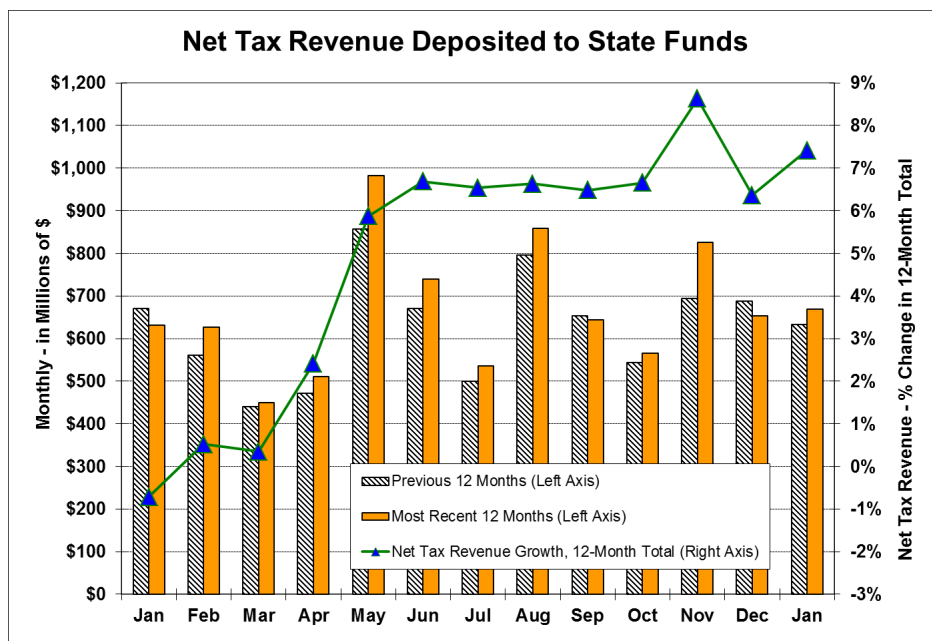
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: February 29, 2016

Twelve-Month Total Net Tax Receipts Through January 31, 2016

The attached spreadsheet presents net tax revenue deposited to state funds for the 12-month period ending January 2016 with comparisons to the previous 12 months. January 2015 to January 2016 one-month comparisons are also presented. The source of the information is the state accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the state were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

Total tax deposits for the most recent 12 months were 7.4% above the previous period. Growth over the past 12 months has been dominated by increased individual income tax revenue and fuel tax revenue growth resulting from a March 2015 increase in fuel tax rates. A portion (\$23.4 million) of the annual growth will reverse in February when a large tax remittance error is corrected.

Month of January 2016

January net tax receipts totaled \$669.6 million, an increase of \$37.7 million (6.0%) compared to January 2015. Growth for the month was driven by increased fuel tax and individual income tax revenue. The fuel tax growth is the result of a tax rate increase enacted during 2015 and a deposit timing issue. A majority of the individual income tax growth was the result of a \$23.4 million withholding tax remittance error. This remittance error will be reversed in February and individual income tax will be negatively impacted by the correction.

Year-Over-Year Comparison – Net Tax Revenue

During the 12-month period ending January 2016, net revenue from all taxes deposited to state funds totaled \$8.063 billion, an increase of \$556.3 million (7.4%), compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

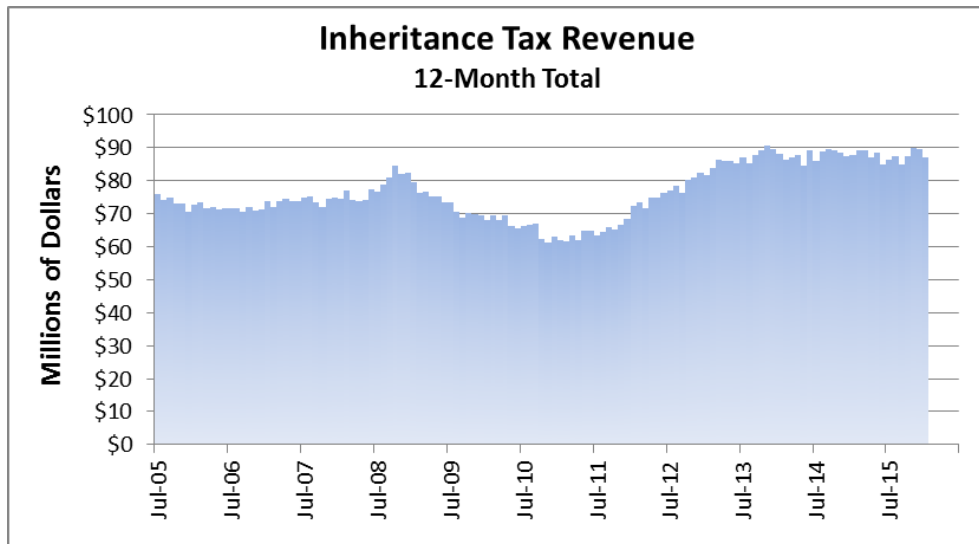
- Individual Income Tax (positive \$302.0 million, 9.2%) – At \$302.0 million, individual income tax accounts for 54.3% of all tax revenue growth over the past year. In February, the correction of a remittance error will reduce the 12-month total for individual income tax.
- Corporate Income Tax (negative \$2.8 million, -0.7%) – Last month, annual corporate income tax revenue growth turned negative for the first time since February 2015. Over the most recent six months, growth for this source is down \$66.9 million (32.3%).
- Sales/Use Tax (positive \$46.8 million, 1.8%) – Gross tax receipts from the sale of vehicles (deposited to the Road Use Tax Fund) increased 7.1% over the last 12 months and sales/use tax deposited to the State General Fund increased 2.6%. Over those same 12 months, refunds of General Fund sales/use tax payments, including the payments to local school districts for school infrastructure, increased \$30.5 million.
- Bank Franchise Tax (positive \$12.5 million, 39.3%) – After a significant decline that began in March 2014, the annual growth in bank tax net revenue turned positive in April 2015. Over the most recent 12 months, tax deposits have increased \$8.0 million while tax refunds have decreased \$4.5 million.
- Fuel Tax (positive \$177.4 million, 40.0%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 0.6% and taxable diesel sales decreased 2.0%. The combination of gasoline and diesel taxable fuel gallons decreased 0.2% over the period. Due in large part to the Iowa gas tax increase (effective March 1, 2015), fuel tax net deposits increased \$165.2 million (43.9%) over the past nine months.
- Gambling Tax (positive \$9.3 million, 3.2%) – According to Racing and Gaming Commission statistics, 10 Iowa casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending January 2016. A new casino opened near Jefferson in July 2015. The combined AGR change for the 19 facilities was positive 1.3% over the previous 12 months. Across all facilities, the AGR for the 12 months totaled \$1.424 billion, an amount that is 3.1% below the annual AGR peak (December 2012).
- Real Estate Transfer Tax (positive \$1.4 million, 7.6%)
- Cigarette and Tobacco Tax (positive \$5.3 million, 2.4%)

Tax Spotlight – Inheritance Tax

The inheritance tax is imposed under the authority of [Iowa Code chapter 450](#). Tax rates range from 5.0% to 15.0% depending on the amount of inheritance and the relationship of the beneficiary to the decedent. To be subject to the tax, the estate must exceed \$25,000 in value. Spouses were exempted fully from the inheritance tax with the passage of SF 356 (Department

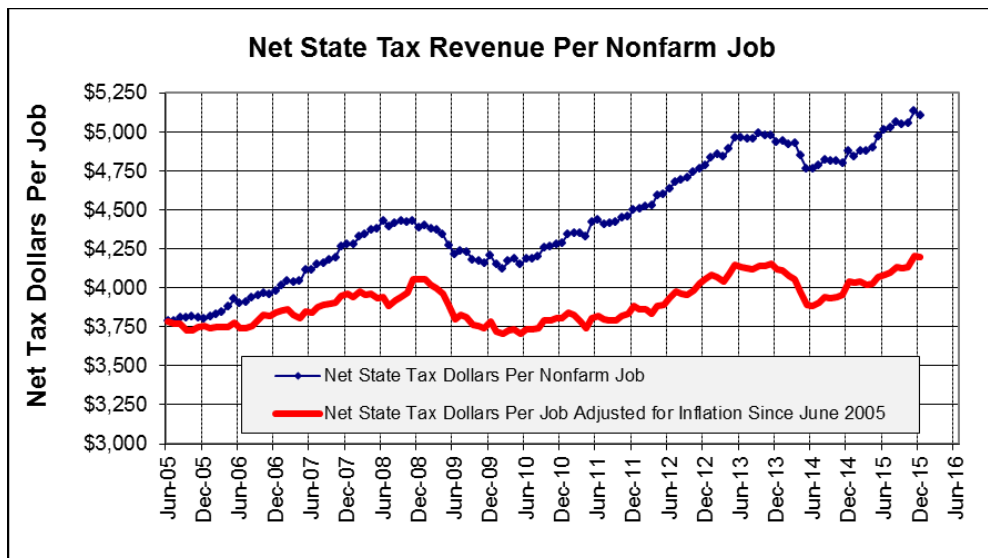
of Revenue and Finance Tax Administration Act of 1991). Senate File 35 (Inheritance Tax Act of 1997) expanded the exemption to include all lineal ascendants and decedents.

The qualified use inheritance tax is imposed under the authority of [Iowa Code chapter 450B](#). A qualifying heir for federal tax purposes may forego inheritance tax on property used in farming or business if they maintain the business for up to 10 years. However, if the farm or other business is sold to a nonrelative prior to the 10 years, the heir may be required to pay inheritance tax.



Tax Revenue and Employment

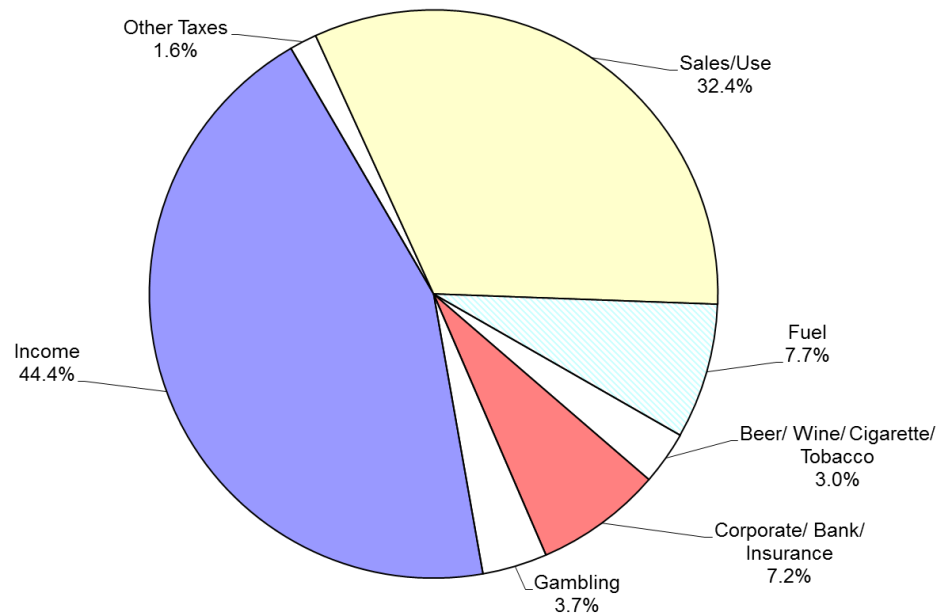
The average reading for Iowa nonfarm employment over the 12 months ending December 2015 is 1,572,500 and net state tax receipts over the same 12 months totaled \$8.026 billion, or \$5,104 per nonfarm job. This is \$1,319 higher than the per job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the state per job, calculated monthly. The red line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation-adjusted tax revenue per job has increased \$412 since June 2005, and the remainder of the \$1,319 increase (\$907) represents the impact of inflation.



Net State Tax Revenue - Twelve Months Ending January 2016

Net Revenue = \$8.063 Billion

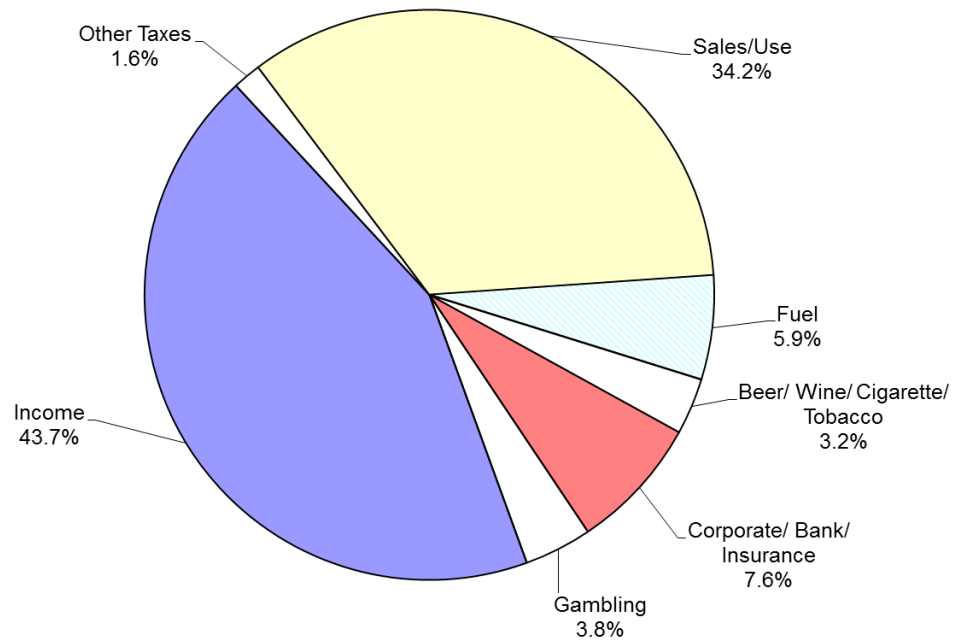
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending January 2015

Net Revenue = \$7.507 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - columns and rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of January 2015	Month of January 2016	January \$ Change	January % Change
Banking	\$ 31.8	\$ 44.3	\$ 12.5	39.3%	\$ 2.8	\$ 5.8	\$ 3.0	107.1%
Beer & Wine	22.1	22.3	0.2	0.9%	2.2	2.2	0.0	0.0%
Cigarette & Tobacco	218.1	223.4	5.3	2.4%	15.1	12.6	- 2.5	-16.6%
Corporate Income	429.7	426.9	- 2.8	-0.7%	31.4	22.8	- 8.6	-27.4%
Fuel	443.5	620.9	177.4	40.0%	28.0	51.3	23.3	83.2%
Gambling	288.3	297.6	9.3	3.2%	27.1	22.5	- 4.6	-17.0%
Individual Income	3,278.5	3,580.5	302.0	9.2%	366.3	406.1	39.8	10.9%
Inheritance	88.1	87.3	- 0.8	-0.9%	6.3	3.7	- 2.6	-41.3%
Insurance	109.0	109.9	0.9	0.8%	0.2	0.2	0.0	0.0%
Other Taxes	14.2	18.3	4.1	28.9%	1.2	2.0	0.8	66.7%
Real Estate Transfer	18.5	19.9	1.4	7.6%	2.0	2.0	0.0	0.0%
Sales/Use	2,565.3	2,612.1	46.8	1.8%	149.5	138.6	- 10.9	-7.3%
Total Net Taxes	<u>\$ 7,507.1</u>	<u>\$ 8,063.4</u>	<u>\$ 556.3</u>	7.4%	<u>\$ 632.1</u>	<u>\$ 669.8</u>	<u>\$ 37.7</u>	6.0%
Gross Tax & Refunds								
Gross Tax	\$ 8,955.4	\$ 9,556.5	\$ 601.1	6.7%	\$ 681.2	\$ 734.7	\$ 53.5	7.9%
Tax Refunds	\$ - 1,448.4	\$ - 1,493.0	\$ - 44.6	3.1%	\$ - 49.0	\$ - 65.1	\$ - 16.1	32.9%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 6,176.0	\$ 6,511.5	\$ 335.5	5.4%	\$ 529.6	\$ 550.1	\$ 20.5	3.9%
Road Use Tax Fund	\$ 794.1	\$ 995.6	\$ 201.5	25.4%	\$ 57.4	\$ 80.9	\$ 23.5	40.9%
Non-GF Gambling	\$ 286.6	\$ 296.0	\$ 9.4	3.3%	\$ 27.0	\$ 22.4	\$ - 4.6	-17.0%
Other State Funds	\$ 250.2	\$ 260.4	\$ 10.2	4.1%	\$ 18.2	\$ 16.2	\$ - 2.0	-11.0%
Local Option Taxes *	\$ 916.3	\$ 985.6	\$ 69.3	7.6%	\$ 62.3	\$ 70.5	\$ 8.2	13.2%

* Sales, income surtax, hotel/motel, and flood mitigation. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

Tax Categories Used in Table

Franchise (Bank) Tax: The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority Fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco product tax revenue was deposited in the State General Fund. Since FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes has been deposited in the Health Care Trust Fund and the remainder is deposited in the State General Fund. Beginning in FY 2014, all cigarette and tobacco tax revenue is deposited in the Health Care Trust Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several state funds. Beginning with FY 2014, the state no longer deposits gambling tax revenue to the State General Fund. Funds receiving deposits of gambling tax revenue over the last 24 months include the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, and the Iowa Skilled Worker and Job Creation Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$6.0 million per year (\$5.75 million in FY 2015) is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a state fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the state. The distribution of the state portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% for FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from state revenue as part of the net sales/use tax calculation. Beginning FY 2014, a portion of state sales/use tax revenue is deposited in a new Sales Tax Increment Fund and used for local flood mitigation projects.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning in FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO tax was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount. Flood mitigation sales tax increment transfers to local governments were added beginning July, 2014.

Report Database: The database for this report is the state accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.